

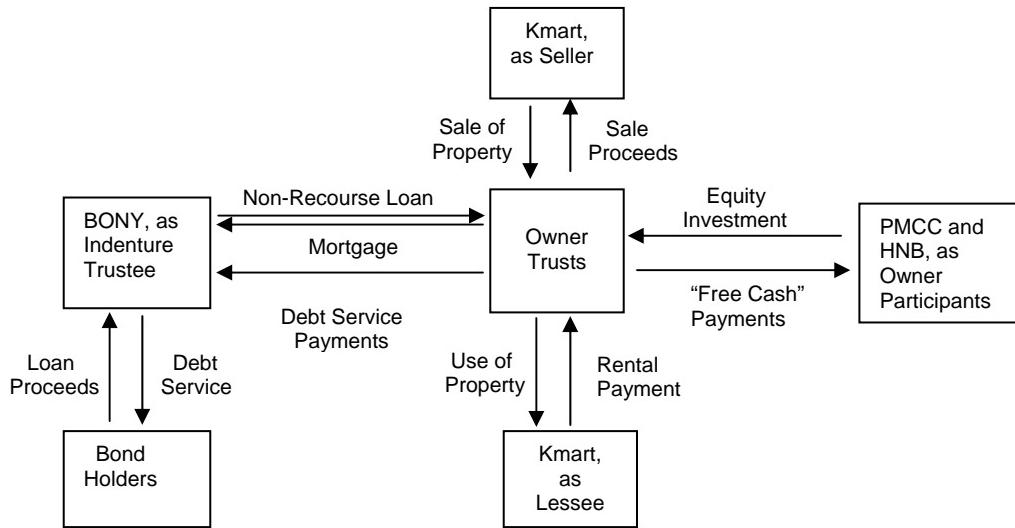
BRIEF OF APPELLANTS

APPENDIX

BRIEF OF APPELLANTS

APPENDIX, ITEM 1

Schematic Representation of the Structured Finance Transaction



Events Depicted (See Findings/Conclusions at 2-4)

1. Kmart sold sixteen of its stores into sixteen Owner Trusts, receiving sale proceeds of \$170 million.
2. Kmart then leased each of the sixteen stores from the Owner Trusts for a twenty-five year term.
3. As the Owner Participants, PMCC and HNB contributed \$20 million of the needed \$170 million, with the balance provided from a public bond offering.
4. The bond indebtedness, while otherwise non-recourse, was secured by mortgages on the sixteen properties (including collateral assignments of the store leases).
5. As rent payments were received from Kmart, the Owner Trusts utilized the same to make the required debt service payments (both principal and interest), with the balance paid over to the Owner Participants as “free cash”.